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FILE

**REPORT TO
THE CONGRESS OF THE UNITED STATES**

**REVIEW OF
THE ACTIVITIES OF
THE OFFICE OF THE GOVERNMENT COMPTROLLER
OF THE VIRGIN ISLANDS
FISCAL YEARS 1963, 1964, AND 1965**

DEPARTMENT OF THE INTERIOR



**BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES**

APRIL 1966

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-114808

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To the President of the Senate and the
Speaker of the House of Representatives

The accompanying report summarizes our reviews of the activities of the Office of the Government Comptroller of the Virgin Islands for fiscal years 1963, 1964, and 1965. Our reviews were made pursuant to section 19 of the Revised Organic Act of the Virgin Islands (48 U.S.C. 1632), which provides that the office and activities of the Government Comptroller be subject to annual review by the Comptroller General of the United States who shall report thereon to the Governor of the Virgin Islands, the Secretary of the Interior, and the Congress.

During our reviews of the audit activities of the Office of the Government Comptroller for fiscal years 1963 and 1964, we proposed the establishment of several procedures to improve the value of the services rendered by the Government Comptroller to the Government of the Virgin Islands. Our fiscal year 1965 review disclosed that the Government Comptroller had adopted our proposals.

On the basis of our reviews of the audit activities of the Office of the Government Comptroller, we believe that, at the conclusion of our review in October 1965, the Government Comptroller was carrying out his audit responsibilities under section 17 of the Revised Organic Act of the Virgin Islands in a manner which substantially fulfills the requirements of the act.

Our report also contains comments on the method of financing the activities of the Office of the Government Comptroller. Since 1959, the activities of the Office of the Government Comptroller have been financed by appropriations made by the Federal Government. In view of the substantial increase in net revenues collected by the United States Treasury on the Virgin Islands products transported to the United States, which are paid to the Government of the Virgin Islands as Federal grants, and because the Government Comptroller's operations primarily benefit the insular government, we believe that the Congress may wish to consider financing the Office of the Government Comptroller from the funds which are otherwise transferable to the insular government as Federal grants.

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Action of a similar nature was taken by the Congress in its reimbursement of the fiscal years 1960, 1961, and 1962 operating losses of the Virgin Islands Corporation which is a wholly owned Federal corporation.

The Department of the Interior advised us that, as long as the Government Comptroller is a Federal official appointed and supervised by the Secretary of the Interior, it could not agree that the Office of the Government Comptroller be financed from internal revenue collections which are otherwise transferable to the insular government as Federal grants.

The Department of the Interior advised us also that it planned to recommend to the Congress legislation to transfer the Office of the Government Comptroller and the cost thereof to the Government of the Virgin Islands. However, it should be noted that the Department in its legislative proposals to the Eighty-seventh and Eighty-eighth Congresses included proposals for the transfer of the activities of the Government Comptroller to the Government of the Virgin Islands, which were not favorably considered. Under the existing statute, we believe that the financing of the activities of the Office of the Government Comptroller from revenues collected by the United States Treasury that are otherwise transferable to the Government of the Virgin Islands as Federal grants would be appropriate.

We are therefore recommending that the Congress consider requiring future operations of the Office of the Government Comptroller be financed from revenues collected by the United States Treasury which are otherwise transferable to the insular government as Federal grants.

A copy of this report is being sent to the President of the United States. Copies are also being sent to the Secretary of the Interior, the Governor of the Virgin Islands, and the Government Comptroller of the Virgin Islands.



Comptroller General
of the United States

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REPORT ON
REVIEW OF THE ACTIVITIES OF
THE OFFICE OF THE GOVERNMENT COMPTROLLER
OF THE VIRGIN ISLANDS
FISCAL YEARS 1963, 1964, AND 1965

INTRODUCTION

The General Accounting Office has reviewed the activities of the OFFICE OF THE GOVERNMENT COMPTROLLER OF THE VIRGIN ISLANDS for the fiscal years ended June 30, 1963, 1964, and 1965, pursuant to section 19 of the Revised Organic Act of the Virgin Islands (48 U.S.C. 1632), which provides that the office and activities of the Government Comptroller be subject to annual review by the Comptroller General of the United States who shall report thereon to the Governor of the Virgin Islands, the Secretary of the Interior, and the Congress.

Officials responsible for activities of the Office of the Government Comptroller of the Virgin Islands during fiscal years 1963, 1964, and 1965 are listed in the appendix.

BACKGROUND

The Office of the Government Comptroller of the Virgin Islands was established in 1954, pursuant to section 17 of the Revised Organic Act of the Virgin Islands (48 U.S.C. 1599), under the general supervision of the Secretary of the Interior. The Government Comptroller is appointed by the Secretary of the Interior for a term of 10 years and is subject to removal by the Secretary for cause. Although the Government Comptroller has the overall audit responsibility for activities of the Government of the Virgin Islands, he is a Federal official and employees of his office are Federal

employees. At June 30, 1965, the Government Comptroller's technical staff consisted of the Deputy Government Comptroller, an attorney, three auditors, two audit technicians, and five audit clerks.

Responsibilities of the Government Comptroller include:

- ✓1. Auditing and settling all accounts and claims pertaining to the revenues, receipts, and expenditures of the Government of the Virgin Islands.
- ✓2. Bringing to the attention of the proper administrative officials failures to collect amounts due the Government of the Virgin Islands and expenditures of funds or property which in his opinion are extravagant, excessive, unnecessary, or irregular.
3. Submitting to the Governor of the Virgin Islands an annual report on the fiscal condition of the government, showing the receipts and disbursements of the various departments and agencies of the government.
4. Preparing such other reports as may be required by the Governor, the Comptroller General of the United States, or the Secretary of the Interior.
5. Certifying to the Secretary of the Interior the net amount of revenues collected by the insular government, which form the basis for Federal grants to the Government of the Virgin Islands.

Pursuant to section 28(b) of the Revised Organic Act of the Virgin Islands (26 U.S.C. 7652(b)), the net revenues collected during the fiscal year by the United States Treasury on articles produced in the Virgin Islands (chiefly rum) and transported to the United States are paid as Federal grants in the subsequent fiscal year to the insular government in an amount not to exceed the net local revenue collections, as certified by the Government Comptroller. Such Federal grants paid to the Government of the Virgin Islands amounted to \$7,682,529 in fiscal year 1963, \$7,042,107 in fiscal year 1964, and \$8,313,413 in fiscal year 1965.

The Revised Organic Act of the Virgin Islands also provides that (1) permanent residents of the Islands pay their Federal income taxes directly into the treasury of the Virgin Islands and (2) collections of customs duties and of immigration, naturalization, and passport fees be paid--net of collection costs--into the treasury of the Virgin Islands. The net proceeds from these taxes, duties, and fees are available for expenditure as the Legislature of the Virgin Islands may provide. During fiscal years 1963, 1964, and 1965 the revenues of the insular government (excluding income from certain types of service charges) totaled \$21.5 million, \$27.6 million, and \$31.6 million, respectively, of which \$17.9 million, \$22.1 million, and \$25.1 million, respectively, arose from Federal grants and the federally imposed income taxes and customs duties.

COMMENTS ON ACTIVITIES OF THE
OFFICE OF THE GOVERNMENT COMPTROLLER

GENERAL

The Government Comptroller issued 14, 21, and 55 final audit reports during fiscal years 1963, 1964, and 1965, respectively, on activities of the Government of the Virgin Islands. These reports covered a major portion of the insular government's operations. Also during fiscal years 1964 and 1965, while audits were in progress, the Government Comptroller issued 5 and 4 interim reports, respectively, to the Governor disclosing deficiencies in insular government operations, which, in his opinion, required prompt corrective action.

With the exception of the requirements to issue an annual report on the fiscal condition of the Government of the Virgin Islands and to certify to the Secretary of the Interior the net local revenues collected by the Government of the Virgin Islands, the Revised Organic Act of the Virgin Islands does not specify the frequency of audits of activities of the Government of the Virgin Islands to be performed by the Office of the Government Comptroller. The selection of audit areas is determined by the Government Comptroller whose general policy is to audit all departments and agencies on a cycle basis with a concentration on those activities with the most significant expenditures. In addition, the Government Comptroller performs audits, on as timely a basis as his staffing capabilities permit, of those activities which are of current interest and those departments and agencies for which new commissioners or agency heads have been appointed.

IMPROVEMENTS MADE IN AUDIT ACTIVITIES

During our reviews of the audit activities of the Office of the Government Comptroller for fiscal years 1963 and 1964, we proposed the establishment of several procedures to improve the value of the services rendered by the Government Comptroller in connection with his responsibility under section 17(c) of the Revised Organic Act of the Virgin Islands. This section provides that it shall be the duty of the Government Comptroller to bring to the attention of the proper administrative officials failures to collect amounts due the Government of the Virgin Islands and expenditures of funds or property which, in his opinion, are extravagant, excessive, unnecessary, or irregular. Our fiscal year 1965 review disclosed that the Government Comptroller had adopted our proposals.

In order for the Government Comptroller to satisfy himself as to the correctness of stated factual data and the adequacy of supporting material for the deficiencies, conclusions, and recommendations reported as a result of audits performed by his staff, we proposed that the Government Comptroller establish a procedure to provide for all information in his audit reports to be independently verified to supporting documentation by staff members not directly associated with performance of the specific audits. Our fiscal year 1965 review disclosed that the Government Comptroller had established a procedure whereby the facts stated in each audit report were being independently verified by members of his staff not directly associated with the specific audits in order to determine whether the contents of the reports were accurate and supported by proper working papers. During our review, discussions were held with the staff members responsible for performing the independent verification with a view to assisting them in formalizing

their techniques to further assure themselves of the adequacy of supporting documentation.

In the interest of ensuring completeness of audit development work, validity of conclusions, and soundness of recommendations, we proposed also that, at the completion of each audit, the Government Comptroller or his designated representative discuss all deficiencies disclosed by the audit with the responsible insular government officials and that the comments of these officials be given consideration in preparation of the draft report. Our fiscal year 1965 review disclosed that the Government Comptroller had adopted our proposal.

SCOPE OF GAO REVIEW AND OPINION

Our reviews of the activities of the Office of the Government Comptroller for fiscal years 1963, 1964, and 1965 consisted primarily of an examination of the Government Comptroller's audit reports and supporting workpapers and of selected tests of his audit work at offices of certain departments of the insular government at St. Thomas, Virgin Islands. We also inquired into the procedures for determining what corrective action had been taken by insular government officials on recommendations of the Government Comptroller.

The scope of our reviews did not include an examination of the financial records and procedures of the insular government. However, as a result of discussions with the Government Comptroller and of considerations of the significance of activities covered by his audits, we believe that the Government Comptroller used a reasonable basis for the selection of audit areas.

On the basis of our reviews of the audit activities of the Office of the Government Comptroller, we believe that, at the conclusion of our review in October 1965, the Government Comptroller was

carrying out his audit responsibilities under section 17 of the Revised Organic Act of the Virgin Islands in a manner which substantially fulfills the requirements of the act.

COMMENTS ON METHOD OF FINANCING
THE OFFICE OF THE GOVERNMENT COMPTROLLER

Since 1959, the activities of the Office of the Government Comptroller have been financed by appropriations made by the Federal Government. In view of the substantial increase in net revenues collected by the United States Treasury on the Virgin Islands products transported to the United States, which are paid to the Government of the Virgin Islands as Federal grants, and because the Government Comptroller's operations primarily benefit the insular government, we believe that the Congress may wish to consider financing the Office of the Government Comptroller from the funds which are otherwise transferable to the insular government as Federal grants. Action of a similar nature was taken by the Congress in its reimbursement of the fiscal years 1960, 1961, and 1962 operating losses of the Virgin Islands Corporation which is a wholly owned Federal corporation.

The responsibilities of the Government Comptroller, as set forth in the Revised Organic Act of the Virgin Islands, indicate the nature of benefits received by the insular government from the operation of his office. For example, in carrying out his responsibilities, the Government Comptroller has reported, to administrative officials, weaknesses in the insular government's financial management and accounting practices. Disclosure of these weaknesses has resulted in the discontinuance of uneconomical practices and the recovery of improper expenditures and collections of other amounts due the insular government. Other activities of the Government Comptroller which benefit the insular government include the audit and settlement of all accounts and claims pertaining to revenues, receipts, and expenditures of the insular government and

the submission of an annual report on the insular government's fiscal condition to the Governor.

The Congress in establishing the Office of the Government Comptroller initially provided that activities of his office be financed by the Government of the Virgin Islands. Thus, for about 5 years commencing with the appointment of the first Government Comptroller on October 26, 1954, the Government Comptroller depended on the Legislature of the Virgin Islands to appropriate the funds needed to carry out his responsibilities. This method of financing was not satisfactory since agreement was not always reached between the Government Comptroller and the Legislature of the Virgin Islands as to the level of appropriations required by the Government Comptroller to effectively discharge his responsibilities.

Effective July 1, 1959, the Revised Organic Act of the Virgin Islands was amended to provide that the salaries of the Government Comptroller and of members of his immediate staff be paid by the United States (48 U.S.C. 1641). This action by the Congress eliminated the dependence of the Government Comptroller on appropriation action by the Virgin Islands Legislature for funds to carry out his functions.

The Federal appropriations and actual expenditures of the Office of the Government Comptroller, commencing with fiscal year 1960, are shown below.

<u>Fiscal year</u>	<u>Appropriations</u>	<u>Expenditures</u>
1960	\$180,000	\$147,888
1961	186,325	161,996
1962	227,500	157,006
1963	225,000	157,598
1964	185,000	173,073
1965	192,200	167,716

The revenues of the Virgin Islands Government increased from \$11,517,579 for fiscal year 1959 to \$31,668,682 for fiscal year 1965. This increase in revenues includes an increase of from \$3,872,865 to \$8,313,413 in net revenues collected by the United States Treasury on Virgin Islands products and paid to the insular government as Federal grants. This substantial increase in revenues indicates that the Government of the Virgin Islands is capable of assuming the responsibility for financing the activities of the Government Comptroller.

The Department of the Interior advised us on July 14, 1965, that, as long as the Government Comptroller is a Federal official appointed and supervised by the Secretary of the Interior, the Department can not agree that the Office of the Government Comptroller should be financed from internal revenue collections which are otherwise transferable to the insular government as Federal grants. However, the Congress in establishing the Office of the Government Comptroller initially provided that activities of his office be financed by the Government of the Virgin Islands even though he was to be appointed and supervised by the Secretary of the Interior.

The present method of financing the Office of the Government Comptroller was adopted because agreement was not always reached between the Government Comptroller and the Virgin Islands Legislature as to the level of appropriations required by the Government Comptroller to effectively discharge his responsibilities. By reserving funds from revenues collected by the United States Treasury, which are otherwise transferable to the insular government as Federal grants, the activities of the Government Comptroller would be financed, in effect, by the Government of the Virgin Islands, as

originally provided, without making his office dependent on appropriation action by the Virgin Islands Legislature.

The Department of the Interior advised us also that it planned to recommend to the Congress legislation to transfer the Office of the Government Comptroller and the cost thereof to the Government of the Virgin Islands. However, it should be noted that the Department in its legislative proposals to the Eighty-seventh and Eighty-eighth Congresses included proposals for the transfer of the activities of the Government Comptroller to the Government of the Virgin Islands, which were not favorably considered. Under the existing statute, we believe that the financing of the activities of the Office of the Government Comptroller from revenues collected by the United States Treasury that are otherwise transferred to the Government of the Virgin Islands as Federal grants would be appropriate.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress consider requiring that future operations of the Office of the Government Comptroller be financed from revenues which are otherwise transferable to the insular government as Federal grants because (1) the Congress originally provided that the Government Comptroller's activities be financed by the insular government and (2) the activities of the Government Comptroller primarily benefit the Government of the Virgin Islands.



APPENDIX

OFFICIALS RESPONSIBLE FOR ACTIVITIES
OF
THE OFFICE OF THE GOVERNMENT COMPTROLLER
OF THE VIRGIN ISLANDS
FISCAL YEARS 1963, 1964, AND 1965

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF THE INTERIOR: Stewart L. Udall	Jan. 1961	Present
ASSISTANT SECRETARY---PUBLIC LAND MANAGE- MENT:		
Harry R. Anderson	July 1965	Present
John A. Carver, Jr.	Jan. 1961	Dec. 1964
ASSISTANT SECRETARY FOR ADMINISTRATION: D. Otis Beasley	Sept. 1952	Dec. 1965
DIRECTOR, OFFICE OF TERRITORIES:		
Ruth G. Van Cleve	Apr. 1964	Present
Richard F. Taitano	Mar. 1961	Apr. 1964
GOVERNMENT COMPTROLLER OF THE VIRGIN ISLANDS: Peter A. Bove	Aug. 1957	Present